in any manner in determining local rates.[46]

In sum, consumers will suffer real and substantial harm if Ameritech enters the long-distance market before local competition has developed sufficiently to remove its incentives and opportunities to abuse its bottleneck control over local access.

b. *Dangers to the local market of premature entry.* Ameritech's entry into the long-distance market will diminish the opportunities for competitors to compete in the local market. Ameritech alone can offer a comprehensive package of bundled local and long-distance services to all of its local customers immediately upon its entry into the long-distance market. CLECs cannot immediately offer a sufficient range of local services throughout Michigan. In addition to this one-stop shopping advantage, Ameritech will be able to offer its local customers most vulnerable to other potential local competitors price discounts and long-term contracts. Through these marketing strategies, available the day they are allowed into their long-distance market, Ameritech and the other BOCs will attempt to "lock in" large numbers of customers, shutting out local competition before it has had a chance to start.

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[46] Ameritech produces a great deal of testimony concerning its satisfaction of the § 272 separation and nondiscrimination requirements. However, Ameritech fails to establish that it will not use its existing official services network to provide ordinary long distance service. These interexchange networks were built to handle so-called official services that are part of the BOCs' local exchange and exchange access business. United States v. Western Elec. Co., 569 F. Supp. 1057, 1098-99 (D.D.C. 1983). Use of official services networks to provide ordinary long distance services would inherently involve discrimination and cross-subsidy. If these networks can carry substantial volumes of commercial long distance traffic without impairing their ability to perform the functions for which they were nominally designed, the BOCs obviously built them with substantial excess capacity in anticipation of their entry into the long distance business. The long distance affiliate would essentially be given use of a valuable, costly long distance network for free, in violation of § 272.

Additionally, Ameritech own billions of dollars of local network facilities, and prompt local competition requires it to cooperate with its would-be competitors to share those facilities. If competitors can enter the market only by building competing networks, competition will develop very slowly, if at all. As this Commission has recognized, the BOCs have both the ability and the incentive "to discourage entry and robust competition" in local markets. Local Competition Order, ¶ 10. Congress accordingly intended the promise of entry into in-region long distance to be an incentive for the BOCs to cooperate with and facilitate the development of full competition in their local markets. As Rep. Bliley explained to his colleagues: "the key to this bill is the creation of an incentive for the current monopolies to open their markets to competition." 141 Cong. Rec. H8282 (daily ed. Aug. 2, 1995). If Ameritech is permitted to receive the "carrot" of long-distance entry before its network is fully unbundled, its sole business incentive to cooperate in setting workable procedures for local network access by competitors is eliminated.

c. *Benefit to the local market from in-region long-distance entry.* With respect to the local market, no one contends that Ameritech's entry into in-region long distance will improve the likelihood or speed of competitive entry into the local telephone service. The only benefit to local customers claimed for Ameritech's entry into in-region long distance is the availability of one-stop shopping. But the benefit claimed is extremely limited -- it is the availability of one-stop shopping from one specific source: Ameritech. See, e.g., Ameritech Br. at 69. And delaying Ameritech's entry until substantial local competition is in place at worst simply delays this benefit, while it ensures that consumers will have genuine competitive choices for one-stop shopping as well.

d. *Benefits to the long-distance market from in-region entry.* Ameritech's protestations to the contrary notwithstanding, the long distance market is among the most competitive in American business. Strong competition among 390 companies has produced a consistent pattern of falling prices and changing market shares. See Hall Aff. ¶¶ 147, 152. Indeed, since 1984, the price of long-distance service has fallen over 70 percent in real terms, even taking into account reductions in access charges. See Hall Aff. ¶ 126. The FCC has itself determined that the long-distance market is competitive. In its recent decision to decline to require that reductions in access charges be passed on to the customer, the FCC determined that such regulation was unnecessary in light of the competitive nature of the long-distance market.

In this regard, Ameritech's actions speak louder than its words: if the long distance market were an oligopoly with inflated prices, as Ameritech claims, it would be aggressively entering the long-distance market *outside its region*, as it was free to do the day the Telecommunications Act became effective. Ameritech is able to take advantage of the well-functioning wholesale market for long-distance capacity to offer immediately a bundled of services to its customers. See Warren-Boulton/Baseman Aff. ¶ 65. Yet, although Ameritech has approval to offer long distance out-of-region in at least 42 states, it has not done so. Nor is there a rush to enter the out-of-region market by other BOCs. Precisely because the long distance market is so competitive, BOCs' interests lie in directing their arsenals to their in-region markets where they can leverage their bottlenecks to the detriment not only of competitors but also the public.[47]

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[47]Moreover, the only companies prohibited from entering the long distance market are BOCs. If post-divestiture prices for long distance had ever been as inflated as the BOCs self-servingly protest, the stream of competitors would long since have brought them down. See, e.g., Hall Aff. ¶169.

In sum, the benefits of BOC entry to both the long-distance and local markets are limited, and the risks of permitting BOC entry while it retains its local bottleneck are considerable. If the Commission errs on the side of premature entry, it will destroy the prospect for the rapid development of local competition and damage the competitive long distance market. See Davis Aff. ¶¶ 21, 39. If it errs on the side of caution, it will merely delay the modest benefits associated with BOC long-distance entry.

That being so, the Commission should demand hard evidence that the local market is being disciplined by competitive changes, and evidence that these changes are irreversible, before allowing BOC entry. BOC entry into in-region long distance serves the public interest only if the level and range of competition in its local market is sufficient to act as a real *market constraint* on anti-competitive abuse in both local and in-region long distance markets. When access charges fall -- not by administrative fiat, but by the operation of the market, that demonstrates a competitive market. When monopoly profits decline -- not by operation of a price cap, but by the operation of the market, that is a sign of a competitive market. When most customers have a choice of local carrier -- not potentially, but actually, that is a sign of a competitive market. But when -- as here -- none of these things is present, and in their place are statements by experts who opine that the local market will likely develop into a competitive one, the risk that these predictions will not prove out is simply too high to find entry in the public interest.

B. Ameritech's Entry Is Not in the Public Interest At This Time.

As we stressed at the outset, Ameritech controls a monopoly market devoid of anything but *de minimis* competition. See supra pp. 2-4. There is no facilities-based residential competition in

Michigan today. That minimal competition has begun in a few niche markets for a handful of business customers provides no assurance that most consumers in Michigan will have the benefit of effective, facilities-based local competition. See Hall Aff. ¶¶ 14, 32-43. Indeed, the prospects for competition are if anything bleaker than what is suggested by Ameritech's continuing monopoly grip over its own market. More than one in seven Michigan customers are served by an incumbent monopolist other than Ameritech.[48] None of these other companies has entered into § 252 agreements. Given the importance of economies of scale for CLECs like MCI, the absence of agreements with other ILECs makes it even more difficult to compete for Ameritech's customers. Davis Aff. ¶ 22.

Virtually no Michigan subscribers have a choice of local telephone service provider. If Ameritech engages in anti-competitive behavior harmful to consumers, local consumers cannot simply switch to another provider and long distance competitors cannot simply switch to another access provider. There is presently no market restraint on Ameritech.

Today in Michigan, potential market entrants face seemingly insurmountable market barriers. The absence of working OSS, the overpricing of network elements through imposition of exorbitant non-recurring charges and deliberately inflated recurring charges on potential entrants, and the other barriers to entry recited above further impede actual competition. Many of these barriers are fully within Ameritech's control, and belie its claim that it has done all it can do to advance local competition. To the contrary, Ameritech has resisted efforts to open its local market, and through its "1-800 Ameritech" service, and national directory assistance offering it is already offering limited

[48]Telephone Association of Michigan 1997 Directory.

of long-distance service in violation of the prohibitions of the 1996 Act.[49] Ameritech's resistance to local competition is scarcely likely to abate if its only incentive to cooperate with competitors is eliminated.

Because there is virtually no local competition in Michigan, and no evidence that the market is irreversibly open to such competition, Ameritech's entry into in-region long distance is not yet in the public interest. Granting Ameritech's application would be to encourage Ameritech to use its bottleneck control over the local market to distort and impede competition in the long distance market, and would remove Ameritech's only incentive to cooperate with its would-be local competitors. It is precisely this market structure Congress considered contrary to the public interest.

CONCLUSION

For the foregoing reasons, Ameritech's application should be denied.

Respectfully submitted,

Mary L. Brown mj

Mary L. Brown
Susan Jin Davis
MCI TELECOMMUNICATIONS CORPORATION
1801 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
202-887-2551

Anthony C. Epstein
Mark D. Schneider
Nory Miller
JENNER & BLOCK
601 Thirteenth Street, N.W.
Twelfth Floor
Washington, D.C. 20005
202-639-6000

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[49] Ameritech's violations are currently before the FCC. See MCI v. Illinois Bell, No. E-97-19. MCI's complaint was filed on April 10, 1997.

<u>CERTIFICATE OF SERVICE</u>

I, Mark D. Schneider, hereby certify that the foregoing "Comments of MCI Telecommunications Corporation" was served this 10th day of June, 1997, by hand, upon each of the following persons:

Regina Keeney
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 500
Washington, DC 20554

Larry Atlas
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 500
Washington, DC 20554

Richard Metzger
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

Carol Mattey
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, DC 20554

Craig Brown
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, DC 20554

Donald Stockdale
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, DC 20554

ITS Inc.
1919 M Street, NW
Room 246
Washington, DC 20554

Hon. Reed E. Hundt
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, DC 20554

Hon. James H. Quello
Federal Communications Commission
1919 M Street, N.W.
Room 802
Washington, DC 20554

Hon. Rachelle B. Chong
Federal Communications Commission
1919 M Street, N.W.
Room 844
Washington, DC 20554

Hon. Susan Ness
Federal Communications Commission
1919 M Street, N.W.
Room 832
Washington, DC 20554

Daniel Gonzalez
Office of Commissioner Chong
Federal Communications Commission
1919 M Street, N.W.
Room 844
Washington, DC 20554

Tom Boasberg
Office of Chairman Hundt
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, DC 20554

James Casserly
Office of Commissioner Ness
Federal Communications Commission
1919 M Street, N.W.
Room 832
Washington, DC 20554

James Coltharp
Office of Commissioner Quello
Federal Communications Commission
1919 M Street, N.W.
Room 802
Washington, DC 20554

Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 302
Lansing, MI 48909
Via Federal Express

Stephen M. Shapiro
Theodore A. Livingston
Douglas A. Poe
John E. Muench
Christian F. Binnig
MAYER, BROWN & PLATT
190 South LaSalle Street
Chicago, IL 60603
Via Federal Express

Donald Russell
U.S. Department of Justice
555 4th Street, NW
Room 8104
Washington, DC 20001

Mark S[illegible]

Mark D. Schneider